Best Practices for Measurement of Destination Marketing ROI

The hallmarks of good studies and the generally accepted practices that produce them.

I. PURPOSES AND DEFINITIONS

A. Introduction/Purpose

Destination Marketing Organizations (DMOs) are increasingly called upon to provide assurance to stakeholders (e.g. legislatures, boards, members, etc.), that they are operating effectively, appropriately and accomplishing the intended purposes and aims in terms of increased visitation, visitor spending and/or tax revenue. Stakeholders typically want this evidence quantified. A body of generally accepted accountability practices for DMOs has arisen in response to these expectations, drawn from a variety of sources: private sector practices; accountability research; and the fields of travel and tourism research, marketing, and organizational behavior.

The most comprehensive compilation of destination marketing-related accountability practices to-date are those contained in, "*Standard CVB Performance Reporting: A Handbook for CVBs*" adopted by Destination Marketing Association International, formerly IACVB, in July 2004.[1]

Extensive review of the *Handbook* by state and provincial travel researchers confirms that most of the guidelines for evaluating, calculating and reporting performance recommended for CVBs in the *Handbook* are equally applicable to state and provincial DMOs. The purpose of the present document is to strongly support widespread awareness and use of the *Handbook* by providing a companion piece in which key concepts have been elaborated upon, supplemented, or adapted, so as to make it easier for state and provincial-level DMOs to grasp and apply what is relevant.

B. Establishing Accountability

Demonstrating accountability requires that the intended aims and expected results are clearly identified, and that valid, credible measures of performance evaluation are adopted. DMOs following best accountability practices should complete these or similar steps:

1) Adoption of a mission statement – a broad comprehensive statement of the DMO's purpose;

2) Identification of program goals and objectives that would, if achieved, support the mission;

[1] The Handbook has undergone several updates. The most recent version is available online at: www.destinationmarketing.org

3) Development of performance reporting measures that would reflect and therefore validate the DMO's mission, goals, and objectives. Among prevailing categories of performance reporting measures:
   a. **Activities** (i.e. advertising, FAM tours, brochures, etc.) are the means for achieving the mission.
   b. **Activity measures** quantify what the organization does, how many and how often**.**
   c. **Productivity measures** indicate the extent to which the organization is efficient and effective in using its resources.
   d. **Performance measures** quantify what these activities accomplish.

C. Return on Investment (ROI) as a productivity measurement

ROI is one example of a productivity **measurement**. It is generally acknowledged that ROI and increasing ROI are not the only valid objectives of tourism marketing programs. Other objectives might include: generating positive brand awareness, stimulating interest in lesser known areas within the destination, leveraging external resources, cross-promoting other sectors such as the arts, international trade, etc. If a DMO chooses to use ROI as a performance measure, this document provides a guide on how to develop ROI that best suits the DMO's needs, particularly in response to the accountability expectations of stakeholders and funders, such as legislators.

D. Definition of Return on Investment

1) DMOs should consult and use (adapting as needed, as paraphrased below), the ROI definitions and formulas recommended in the Destination Marketing International Association Handbook:
   ROI formulas examine the return from the investment made by an organization, conceptually represented by the simple ROI formula below:[2]

$$\textit{Return on Investment} = \frac{\underline{\textit{Amount of Return (income)}}}{\textit{Amount of Investment (expense)}}$$

   For a DMO, the amount of return is typically what the DMO returned to the destination (visitor spending, economic impact, tax dollars), ***clearly and significantly generated*** *through its marketing efforts.*

2) When reporting the return to the destination as a whole, in terms of increased visitor spending clearly and significantly generated by DMO

[2] Destination Marketing Association International's "Standard CVB Performance Reporting: A Handbook for CVBs

marketing activities, use terms that distinguish these broad impacts from the tax impacts. For example:

a. *Express the Statewide ROI as the* ***ratio*** *of "visitor spending attributable to marketing activities" to "marketing costs."*
b. *Express the Tax ROI (or comparable term) as the ratio of "tax revenue from visitor spending attributable to marketing activities" to "marketing costs."*

II. ROI COMPONENTS

A. Generic ROI

1) **Return-on-Investment:** A productivity measure that calculates the direct financial return received from the financial investment in a promotion activity.
2) **Visitor Spending**: A travel expenditure is assumed to take place whenever a visitor exchanges money for an activity considered part of his/her trip. Some travel expenditures are assumed to occur at the traveler's origin, some at his/her destination, and some enroute. Indirect and induced spending is not recommended in ROI methods.
3) **Tax Revenues:** A more specific reference would be "tax revenue generated from visitor spending". In the case of a state DMO, tax revenue refers to those sales, excise, and other sources of collections by state government. The source of the investment (i.e. budget expenditures) is generally state taxes, therefore, when researching the ROI it is important to measure the return in state taxes as the final measure of productivity.
4) **Conversion Rate**: A traditional method for measuring the effectiveness of certain tourism office activities such as literature distribution and inquiry fulfillment is the conversion study, conducted to determine the conversion rate (sometimes referred to as the gross conversion rate).
   a. The gross conversion rate is usually determined by surveys of inquirers or visitors and is expressed as the percentage of those visitors who request information and actually visit.
   b. Adjusted conversion rate - Those included in the gross conversion rate determine to have been influenced by marketing or publications to visit a DMO and/or lengthen their stay.
   c. Net conversion rate – Those included in the gross conversion rate who generated incremental spending to the destination by travel or additional travel days that would not have occurred in the absence of the marketing activity to which they were exposed.

d. Simplified example:

If, out of 1000 completed surveys of inquirers,
250 HH generated an estimated 500 person-trips after receiving information; and of those
50 HH were somewhat influenced by the DMO, and generated 100 person-trips;
25 HH had not already decided to visit before receiving information; and generated 50 person-trips

Therefore, 500/1000, or 20%, is the gross conversion rate;
50/1000, or 5% is the adjusted conversion rate;
25/1000, or 2.5%, is the net conversion rate

B. Advertising ROI

1) **Advertising Costs:** Studies should describe what is included as costs; generally, all costs for placement of ads for any media used in advertising campaigns. In addition, depending upon the type of promotion being measured, advertising ROI costs may also include the expenses involved in the process of physically preparing the advertising idea into a print or broadcast advertisement, and any fees associated with the management and administration of the advertising, such as the cost of a media buying service and ad agency administrative fees.

2) **Ad Recall:** A research method frequently used to determine what consumers remember about an advertisement they have seen or heard. The percentage of consumers surveyed who recall an advertisement can be used in the method to determine net, or incremental, conversion and also advertising ROI.

C. Visitor Guide or publication ROI

1) -Should include costs for producing the Visitor Guide along with costs for distributing the Guide or brochure to potential visitors.
2) This type of ROI measurement can only be done if consumers receiving the publication can be randomly sampled to determine the publication influence on their travel decisions.

III. ROI METHODS AND APPROACHES

A. Generic ROI

1) The more accurate the input/output equation and values, the greater the validity of the ROI.[3]

[3] For further discussion, see Paul Serff, President and CEO, Texas Travel Industry Association; Communications and Tourism Awareness Chair, TIA, "Measuring Travel & Tourism's Powerful Return on Investment—A Glimpse at the other 9/10th of the Iceberg," TIA web site, August 17, 2005.

2) ROI should be reported in the same terms as the investment to be justified.

    a. If the investment was in tax dollars, then the "return" should be in tax dollars or general fund dollars generated.
    b. It is recommended that the pertinent tax rate be multiplied by direct travel expenditures for the input part of the equation.
    c. A comprehensive Public Travel & Tourism ROI can be reported as the sum of state and local government tax revenues generated by tourism divided by/state and local government operating expenditures on tourism.[4]

3) ROI should focus on activities in which the DMO stakeholders have the greatest interest.
    a. It is not necessary to determine the ROI for every activity or program area.
    b. Activities that account for large portions of DMO budgets, such as advertising and fulfillment, tend to be of greatest interest to the organization's stakeholders, e.g., Legislators, Tourism Industry officials.
    c. Programs and activities with small budgets do not usually justify large research expenditures or efforts to document ROI.

4) Quantitative methods, calculations and conclusions should reflect generally accepted practices of the opinion and marketing research profession, e.g., Marketing Research Association, Council of American Survey Research Organizations, etc.

5) When reporting results of studies based on methods with known limitations, such as conversion studies, DMOs should acknowledge their well-documented flaws and biases, such as listed below, and explain how they have been addressed.

    a. Marketing by other entities, and a variety of other factors besides DMO marketing (the state of the economy; state of the airlines industry; world trends; hotel rates; and availability of accommodations, price, distribution systems, transportation issues, and its competitors, etc.), may be influencing visitation and spending.
    b. There is no general consensus on how much credence to give to respondents' statements about being influenced by marketing activities.
    c. Persons whose travel behavior was not affected by DMO marketing, i.e., who had already planned to visit the destination

[4] This approach is used by the South Carolina Dept. of Parks, Recreation & Tourism.

prior to being exposed to marketing activities, should not be included in calculations of incremental ROI.
   d. The subset of persons who request literature may not be representative of the population influenced by the activity being evaluated
   e. Survey respondents have poor recall of travel expenditures.

B. Advertising Effectiveness and ROI Studies

1) Two prevailing methods for determining destination advertising effectiveness and ROI are: surveys of households or persons in markets exposed to advertising and who resemble the targets of advertising; and surveys of persons who contacted the destination in response to advertising.

2) Prevailing practices for advertising-related ROI surveys include: web-based, phone or mail, or a combination—phone and mail.
   a. A mail approach could include sending ad packets to qualified households.
   b. The web-based approach enables survey respondents to view/hear the ads on their pc.
   c. For purposes of an ROI study, qualified households should be identified in terms related to the advertising targets. For example: households (in-state and out-of-state) in which persons have taken an overnight leisure round trip(s) of at least 100 miles in the past 12 months.

3) For advertising-related ROI purposes, only those tourist/visitor expenditures of parties who visited the DMO and/or extended their stay and sought additional information AFTER being exposed to advertising can be considered to have been influenced or potentially influenced by advertising. These would generally be considered as total, or gross, impacts.
   a. Net impacts from "incremental dollars" should include only those expenditures that were not likely to have occurred without advertising.
   b. To determine the ROI relative to the funding source, these expenditures must be translated into tax/general fund dollars for ROI purposes. DMOs funded through the General Fund can estimate Tourism's portion of and/or return to the General Fund attributable to advertising.
   c. Studies should clearly distinguish between total (gross) impacts and incremental (net) impacts.

4) ROI studies may include the selection of regional or tier samples such as within 250 miles, 251-500 miles, 501-750 miles of the DMO's borders; a national sample; an in-state sample. Other parameters may include:

a. Identify the proportion of U.S. households—within the target markets— who were aware of the DMO's domestic consumer advertising.
b. Project this ad awareness impact over the total population exposed to this advertising.
c. Measure the incremental travel that could be attributed to the advertising campaign by comparing the travel behavior of those exposed to/influenced by" the ads versus those "not exposed to/influenced by the ads."

5) When undertaking survey research, DMOs should seek the largest sample size and smallest margin of error they can afford, taking turnaround factors into account. A web-based ROI study, for example, could be more cost effective with more rapid turnaround time than a phone or a mail survey.

6) ROI is activity-specific, time-sensitive and past-oriented.
   a. Predictions or forecasts of future ROI should be undertaken and interpreted with extreme caution, due to:
      - The current lack of industry standards, norms, and validation of destination ROI forecasts;
      - The difficulty of controlling for "all things being equal" in order to make valid comparisons and being able to attribute advertising and marketing activity as being responsible for observed change.
   b. DMOs should not sum or average the ROI of different types of marketing activities
   c. ROI should only be calculated from the results of specific activities and campaigns over an initial time frame, compared with resulting visitation attributable to those activities during a subsequent time frame.
   d. The rationale for the time frames used should be stated.

IV. OTHER RECOMMENDATIONS AND BEST PRACTICES

A. ROI Comparisons

1) Comparing ROI results of different DMOs is unlikely to yield meaningful indications of the relative success of their marketing activities because of the great number of variables other than marketing that may be responsible for the results. Even similar appearing results may be simply coincidental.
2) Comparing ROI results of different campaigns or activities of the same DMO over several years has limited validity because of the difficulty in controlling for "all things being equal."
3) The difficulty of controlling in order to make valid comparisons and being able to attribute advertising and marketing activity as being responsible for observed change.

B. Other Performance Measures for Marketing Programs

Following are methods for determining the performance of various DMO marketing activities. They are not, however, measurements of ROI because they do not determine visitor spending or tax generated by visitor spending that is attributable solely to the DMO marketing program.

i. **Return on Convention Sales Function:** A method for measuring the value of convention marketing by dividing *convention attendee spending generated by the DMO* by *the operating costs of the DMO's convention sales program.*

ii. **Return on Travel Trade Sales Function:** A method for measuring the value of travel trade sales by dividing *visitor spending generated by the DMO's travel trade sales program* by *the operating costs of the DMO's travel trade sales program.*

iii. **Return on Marketing and Communications Function:** A method for measuring the value of the marketing and communications function by determining the advertising equivalency of media coverage generated by public relations activities ..

Prepared by:
State/Provincial Travel Researchers ROI Subgroup:

Tiffany Urness (Lead),California Tourism
Caroline Andersen, Hawaii Tourism Authority
Betsy Gabel, Washington State Tourism Department
AnnDee Johnson, Arizona Office of Tourism
Mark Northington, Louisiana Office of Tourism
Ruth Trojan, Nadler & Associates, LLC
Tom Vanhyning, Mississippi Development Authority